RIGHTTACK CONSULTING · CYCLES & DOWNSIDE PLANNING

Orders don’t taper. They fall off a cliff.

When an equipment market turns, the bullwhip makes sure you feel it worst and first — and the question everyone asks on the Monday is the one you should have answered last quarter: what, exactly, are we committed to? How to separate committed from cancellable before you need to, unwind without burning the suppliers you’ll be begging for in eighteen months, and survive your own recovery.

There is a particular Monday that everyone who has run an equipment business remembers. The orders that were a flood on Friday have stopped — not slowed, stopped. The phone that rang with expedite requests now rings with cancellations. And somewhere above you, someone asks the only question that matters that morning: how exposed are we? What, exactly, are we committed to? If the honest answer is “give me two weeks and I’ll find out,” you have already lost the most valuable fortnight of the whole downturn — because the number you want on that Monday is the one you should have worked out last quarter, while you could still think straight.

Equipment makers get this worse than almost anyone, and it pays to understand why, because it is structural rather than bad luck. It is the bullwhip effect: a small wobble in end demand amplifies as it travels up the supply chain, so a modest dip in your customer’s market becomes a violent swing by the time it reaches the company that sells them the machines. Demand for capital equipment does not taper. It falls off a cliff — and then, months later, it comes back up one just as steep. Your order book is not a smooth curve you can lean against. It is a whip, and you are holding the tip.

The number nobody has: committed versus cancellable

The reason the Monday question is so hard to answer is that almost no company keeps its obligations in the one form that matters in a downturn: committed versus cancellable. The book is organised by project, by supplier, by account — never by whether you can get out of it. So when you need your true exposure, you are reconstructing it under pressure, line by line, from purchase orders that do not say whether they can be cancelled and deposits whose terms nobody remembers. Do that work first, in calm weather.

WHAT A TRUE EXPOSURE NUMBER CONTAINS

- **Committed spend you cannot cancel** — the floor, and the number the board actually fears.
- **Cancellable spend, and what cancelling really costs** — cancellation charges, restocking, tooling you would write off.
- **Deposits and progress payments** — recoverable cash sitting on someone else's balance sheet, not sunk cost.
- **The net** — what the downturn actually costs you after you claw back everything you can.

That third line is the one people miss, and it is the one that saves you. Split every obligation into committed and cancellable, value each properly, and treat the deposits as what they are.

> **A deposit is not money you have spent. It is cash on someone else's balance sheet, and in a downturn your job is to bring it home.**

The difference this makes is not marginal. I have taken a business through a turn where orders fell by an order of magnitude in a single quarter, cut supply-chain obligations by roughly two-thirds inside four months, and came out of it cash positive — not by cutting harder than anyone else, but by treating every vendor advance as cash to be repatriated rather than money already gone. The companies that die in a downturn are usually not the ones with the worst orders. They are the ones who could not tell, quickly enough, which of their commitments were real.

Don't cut in the order the invoices arrive

The second failure is in how the cutting is done. Under pressure, a supply base gets cut in whatever order the pain presents itself — the loudest supplier, the latest invoice, the biggest number on this week's aged payables. That is not a strategy; it is triage by accident, and it optimises for this month at the direct expense of next year. Because here is the thing about a cliff: it has another side. The recovery is coming, it is coming faster than your plan assumes, and when it does you will be competing for the exact capacity you are now deciding whether to burn. So decide, in advance and in cold blood, which suppliers you protect. Not all of them, and pointedly not the cheapest — the ones whose capacity you will be fighting for in eighteen months, the ones who are hard to qualify, the ones with the long lead times.

> **The suppliers you burn on the way down are the ones who put you at the back of the queue on the way up.**

The cheapest downturn is the one you were already built for

There is a decision upstream of all of this, made in the good times and paid for in the bad: how much of your cost is fixed. A cyclical equipment business will shrink — not might, will — and the only real question is whether it can. A company that met its ramp by hiring a large permanent workforce and standing up a large permanent overhead cannot shed cost fast enough when the cliff arrives; the fixed cost that felt like capability on the way up is a millstone on the way down. A company that met the same ramp with flexible labour, outsourced capacity and variable-cost structures pays a little more per unit at the peak and survives the trough that kills its rivals. It costs more in the short term and it wins in the long one. Build for the cycle you know is coming, and the downturn you plan for becomes one you can actually afford to execute.

The plan you wrote for the lender is not the plan you use

Underneath both of these is a quieter failure: the downside plan that exists but was never meant to be used. Most companies have one — a scenario tab built for a bank covenant or a board pack, written to look prudent rather than to be executed. It has never been stress-tested to a number anyone would actually say out loud, and the first time it is opened in anger is the day the orders stop, which is precisely when there is no time to fix it. A downside plan written during a downturn is a negotiation with yourself, and you will lose it. Build the scenario table before the event, run it down to the worst case you are willing to name, and decide the hard things — which sites, which people, which suppliers, which advances to claw back first — while the decisions are still hypothetical and your judgement is still clear.

None of this is about pessimism, and it is certainly not about cutting fastest. It is about knowing your real exposure before you are asked for it, holding a supply base together through the trough so it is there for the recovery, and treating the cash locked in deposits and cancellable commitments as exactly what it is — cash. Do that and a downturn becomes a thing you steer through rather than a thing that happens to you. Get it wrong and you can post good numbers for three quarters and still not survive the fourth.

And notice that none of it is a spreadsheet you build once. It is committed-versus-cancellable kept current, a scenario table maintained to the worst case, a supplier-protection list decided in advance, and the discipline to run all of it in calm weather so the answers exist before the Monday they are needed — inside a business whose every incentive, while the orders are flooding in, is to think about anything else. Knowing the downturn will come is the easy half. Having the number ready before it arrives is the work.

That is the work I do.

WHERE THIS GOES NEXT

The market just turned. How exposed are we? →

The downside planning and exposure method — committed versus cancellable, supplier protection, and unwinding without wrecking the recovery. Or start a conversation: rtackconsulting.com/contact